

## Decommissioning Costs

### **Background**

The U.S. Government requires oil and gas companies that lease rights on the federally-controlled submerged lands of the Outer Continental Shelf (OCS) to provide financial assurance to cover all decommissioning obligations. More than a decade ago, concerns were raised that the required financial assurance levels for future decommissioning of offshore sites were too low, putting the American taxpayers at risk in certain scenarios. If the responsible parties were unable to meet their accrued decommissioning obligations, and actual decommissioning costs were to exceed the amount of financial assurance provided by the oil and gas company, the federal government could be left with no choice but to expend taxpayer funds to hire a third party to decommission the existing infrastructure.

### **Finalization of the Decommissioning Costs Reporting Rule**

BSEE is the agency responsible for evaluating and making available decommissioning cost estimates. BOEM is the agency responsible for determining and securing the appropriate amount of financial assurance. BOEM uses BSEE's decommissioning cost estimates to set necessary financial assurance levels in order to minimize or eliminate the potential that taxpayers will need to assume decommissioning obligations in cases such as bankruptcy. Therefore, in order to continuously improve decommissioning cost estimates, BSEE finalized the Decommissioning Costs Reporting Rule in December 2015. This rule requires lessees and owners of operating rights to submit summaries of their actual expenditures for the decommissioning of wells and platforms, and for verification that the site is clear of obstructions. Obtaining summaries of the actual costs of decommissioning operations is now allowing BSEE to build a robust database that will, over time, help the bureau better estimate future decommissioning costs related to OCS leases, rights-of-way, and rights-of-use and easement. BSEE will soon publish a final rule to require companies to also submit summaries of actual expenditures for pipeline decommissioning.

### **Facts Related to Updated Estimates of Decommissioning Liabilities**

- BSEE estimates that current decommissioning liabilities on the Gulf of Mexico OCS are approximately \$33 billion.
- BSEE updated its decommissioning estimation methods and made a “global update” to its decommissioning estimates in August 2016 and made the information available to both BOEM and the public.

## **Facts Related to Updated Estimates of Decommissioning Liabilities (con't)**

- BSEE held two workshops in advance of the global update in August 2016, during which BSEE provided information and addressed questions from oil and gas companies regarding the Decommissioning Costs Reporting rule and the global update.
- The former algorithms in TIMS that automatically generated decommissioning cost estimates were outdated and did not capture pipeline decommissioning cost.
- BSEE's current decommissioning cost estimation algorithms are more accurate and account for the diverse types of assets that exist today. Also, estimates for deepwater platforms are developed "bottom up", because each site is unique.
- BSEE's cost estimates are not based on the lowest cost for which an oil and gas company can do the work, but rather the cost that the U.S. taxpayer would potentially incur in cases, such as bankruptcy, where the responsible parties are unable to perform the decommissioning operations, such that BSEE would have to contract with a third party to do so.
- BSEE will continue to use the actual expenditure data it receives and adjust algorithms and estimates in the future when warranted.
- Oil and gas companies have the ability to validate any specific cost estimate by submitting supporting information to BSEE (e.g., executed contracts).

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